

**ALASKA STATE LEGISLATURE
SENATE EDUCATION STANDING COMMITTEE**

April 19, 2021

9:17 a.m.

MEMBERS PRESENT

Senator Roger Holland, Chair
Senator Shelley Hughes
Senator Tom Begich

MEMBERS ABSENT

Senator Gary Stevens, Vice Chair
Senator Peter Micciche

COMMITTEE CALENDAR

SENATE BILL NO. 94

"An Act relating to the education loan program and Alaska supplemental education loan program; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 94

SHORT TITLE: EDUCATION & SUPPLEMENTAL LOAN PROGRAMS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

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|----------|-----|--|
| 02/24/21 | (S) | READ THE FIRST TIME - REFERRALS |
| 02/24/21 | (S) | EDC, FIN |
| 03/03/21 | (S) | EDC WAIVED PUBLIC HEARING NOTICE, RULE 23 |
| 03/05/21 | (S) | EDC AT 9:00 AM BUTROVICH 205 |
| 03/05/21 | (S) | Heard & Held |
| 03/05/21 | (S) | MINUTE (EDC) |
| 04/19/21 | (S) | EDC AT 9:00 AM BUTROVICH 205 |

WITNESS REGISTER

SANA EFIRD, MA, Executive Director
Alaska Commission on Postsecondary Education (ACPE)
Executive Officer
Alaska Student Loan Corporation (ASLC)

Juneau, Alaska

POSITION STATEMENT: Delivered a PowerPoint on SB 94.

LEE DONNER, Regional Managing Director

Hilltop Securities

Clifton, Texas

POSITION STATEMENT: Provided an analysis of SB 94.

ACTION NARRATIVE

[9:17:04 AM](#)

CHAIR ROGER HOLLAND called the Senate Education Standing Committee meeting to order at 9:17 a.m. Present at the call to order were Senators Hughes, Begich, and Chair Holland.

SB 94-EDUCATION & SUPPLEMENTAL LOAN PROGRAMS

[9:17:38 AM](#)

CHAIR HOLLAND announced the consideration of SENATE BILL NO. 94 "An Act relating to the education loan program and Alaska supplemental education loan program; and providing for an effective date."

[SB 94 was introduced on 3/5/21.]

[9:18:19 AM](#)

SANA EFIRD, MA, Executive Director, Alaska Commission on Postsecondary Education (ACPE), Executive Officer, Alaska Student Loan Corporation (ASLC), Juneau, Alaska, reviewed slide 2, which identified three things the bill would address for student loan borrowers. Slide 2 read:

- Expands Eligibility for Alaska Refinance Loans -
 - Currently eligible:
 - Alaska residents only - Proposed: previous borrower, cosigner, or beneficiary of an Alaska loan -
 - Proposed: Alaska high schools and postsecondary institutions graduates
- Removes loan limits from statute for in-school loans
- Adds clarifying language that ACPE can offer future student loan borrowers a loan program with immediate repayment

[9:19:40 AM](#)

MS. EFIRD said refinance loans are important because Alaska these loans allow Alaska residents to consolidate multiple Alaska education loans, including loans from other lenders into

one low-interest Alaska student loan. This refinance loan was approved by the legislature about four years ago but is eligible only to current Alaska residents. The Alaska Student Loan Corporation (ASLC) would like to expand the refinance loan program to include Alaska student loan borrowers who may no longer live in the state. Further, ASLC would like to expand loan eligibility to those students who graduated from an Alaska high school or postsecondary institution to provide a connection to Alaska although they are no longer Alaska residents.

[9:21:01 AM](#)

MS. EFIRD stated that the bill would also remove loan limits from statute. She explained that ASLC student loan borrowers and postsecondary institutions in Alaska have indicated that these limits are becoming barriers to students. These students cannot obtain funding from private lenders due to strict underwriting criteria. Some students and their families who can obtain funding from private lenders must pay a higher interest rate than ASLC loans. Some borrowers apply for multiple loans because ASLC's current loans do not cover the gap from the loan amount and the actual cost to attend the institution.

[9:22:03 AM](#)

MS. EFIRD relayed that the Department of Law said the statutes are unclear as to whether ASLC has the authority to offer immediate repayment loans. SB 94 will clarify that ASLC has the authority to offer such a program. Immediate repayment programs are proven to have lower default rates compared to programs with deferred repayment options. This means these refinance loans will result in fewer loan losses and reduce borrower interest rates.

[9:22:44 AM](#)

MS. EFIRD summarized that SB 94 is in response to requests from students and Alaska's higher education community, including current student loan borrowers repaying their loans. It will enhance Alaska student loan borrowers' ability to meet their financial aid needs. Changes will allow for responsible increases to annual loan limits and originations and amend repayment programs to assist borrowers in keeping overall loan costs down. In addition, it will expand eligibility for the refinance program and be responsive to students' and higher educational institutions' needs. These changes are also being requested to increase the financial strength of ASLC by increasing originations and decreasing the corporation's portfolio runoff.

9:24:39 AM

LEE DONNER, Regional Managing Director, Hilltop Securities, Clifton, Texas, said he has served as a financial advisor to ASLC since 2007. He referred members to a memo to Sana Efird, Executive Director, Alaska Student Loan Corporation dated April 6, 2021, which he submitted to the committee. He highlighted three key provisions of SB 94. First, the bill would expand the pool of borrowers eligible to apply for and receive a consolidation or "refinance" loan from ASLC but still limit the pool to borrowers who meet the standard "nexus" definition utilized in the federal tax code.

He explained that most student loan programs run by state agencies or non-profits require the borrower to have a nexus to the state, such that the borrower is or was a resident at the time the loan was made. That has been part of the ASLC's eligibility criteria for some time. SB 94 would add another standard nexus, which is that the borrower is no longer required to be a resident but that the student graduated or attended an educational institution in the state. He offered his view that this is considered standard practice. He suggested that this would affect a small contingent of borrowers. He pointed out that this program applies to the refinance program but not to students in school. These borrowers have likely completed their education and are now working. He characterized these loans as high-quality loans as compared to in-school status loans. This should reduce the runoff in the student loan pool that has occurred since 2010.

9:28:21 AM

MR. DONNER said the second component moves the determination of maximum loan size from the legislature to ASLC. He stated that this is fairly typical for student loan issuers. The loan eligibility criteria and loan size are usually set by the issuer. However, Texas still sets its loan limits legislatively for various reasons and its coordinating board issues general obligation (GO) bonds.

MR. DONNER said ASLC has a long history to justify allowing it to set limits to be more responsive to fluctuations in education costs, he said. Currently, borrowers must go to multiple sources for loans to meet the total cost of their education. He offered his view that this did not pose a negative credit quality limitation. Some borrowers will seek loans from private bank lenders who typically limit loans to 1-2 percent of credit-quality borrowers at high rates.

[9:30:33 AM](#)

MR. DONNER stated that the last change would provide an immediate repayment option. Multiple studies have demonstrated that borrowers who enter repayment status immediately during the in-school period, even if it is only to pay the interest on the loan, have lower delinquency and default rates than those who fully defer payments until some period after they are no longer enrolled on at least a half-time basis. This process keeps borrowers in closer contact with the lender.

[9:31:33 AM](#)

SENATOR BEGICH commented that Ms. Efird addressed all his questions and he was satisfied with the bill. He directed attention to the immediate repayment provision which is something he has supported for decades because some people have the means to do so. He voiced support for SB 94.

[9:33:10 AM](#)

SENATOR HUGHES stated support for increasing the pool to offer better rates on student loans. She asked for an explanation of the mechanics of the immediate repayment option, and whether there was anything to incentivize students to do so since it would reduce the interest.

MS. EFIRD responded that SB 94 will decrease the amount of the loan at the time the student actually graduates so it would reduce the amount to be repaid. Since students would pay the interest while in school, it will benefit the borrower.

[9:34:37 AM](#)

SENATOR HUGHES pointed out that this also requires a higher standard for consolidation loans than the in-school loans for Alaskans.

[9:35:28 AM](#)

MS. EFIRD agreed; she explained that the in-school loans require a lower FICO score and consolidation loans require a higher FICO score.

[9:35:44 AM](#)

CHAIR HOLLAND remarked that he was initially concerned but his questions were answered.

[9:36:35 AM](#)

At ease

[9:36:42 AM](#)

CHAIR HOLLAND held SB 94 in committee.

9:37:09 AM

There being no further business to come before the committee, Chair Holland adjourned the Senate Education Standing Committee meeting at 9:37 a.m.